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Letter Ruling 83-3: Minister's Pension Paid as a Rental Allowance

January 13, 1983

You have requested a ruling whether the pension paid to you, as a retired pastor by the \_\_\_\_\_ Church, is exempt from Massachusetts income tax in whole or in part.

Massachusetts General Laws Chapter 62, Section 2 defines Massachusetts gross income as federal gross income, with certain modifications not applicable here. Under federal law, a pension paid to a retired employee is usually taxable compensation (I.R.C. s. 61(a)). Pensions, other than certain governmental pensions, are includible in Massachusetts gross income. (G.L. c. 62, s. 2).

However, federal gross does not include the rental value of a dwelling furnished to a minister of the gospel or a rental allowance, to the extent that the allowance is used to rent or provide a home. (I.R.C. s. 107). The rental allowance paid to a retired minister as part of his compensation for past services is excludible from gross income under Section 107 of the Internal Revenue Code, to the extent used by the minister for expenses directly related to providing a home. (Rev. Rul. 63-156, 1963-2 C.B. 79). Any portion of the designated rental allowance which is not used by the minister to rent or otherwise provide a home must be included in the minister's gross income in the taxable year in which it is received. (U.S. Treas. Reg. s. 1.107-1(c)).

The term "rental allowance" means an amount paid to a minister to rent or otherwise provide a home, if such amount is designated as rental allowance pursuant to official action taken in advance of such payment by the employing church or other qualified organization when paid after December 31, 1957. (U.S. Treas. Reg. s. 1.107-1(b)). The designation of an amount as rental allowance, as distinguished from other remuneration, may be evidenced in an employment contract, in minutes of or in a resolution by the church or other qualified organization, or in its budget, or in any other appropriate instrument evidencing such official action. (U.S. Treas. Reg. s. 1.107-1(b)).

Based on the foregoing, it is ruled that the portion of your pension which has been designated as rental allowance, pursuant to official action taken in advance of such payment, is excludible from Massachusetts gross income, but only to the extent that the rental allowance is actually used by you during the taxable year to rent or otherwise provide a home.

Very truly yours,

/s/Ira A. Jackson

Ira A. Jackson

Commissioner of Revenue

IAJ:VGS:mg

LR 83-3

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